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Issues Paper

March 17, 1981

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Accounting and Reporting by
Health and Welfare Benefit Plans

Prepared by
Employee Benefit Plans and ERISA Committee
Auditing Standards Division
American Institute of Certified Public Accountants

830272

Table of Contents

	<u>Paragraph</u>
Introduction	1
Scope	5
Plan Investments	6
Advisory Conclusions	10
Plan Obligations	11
Advisory Conclusions	15
Additional Financial Statement Disclosures	17
Advisory Conclusions	18
Appendix A -- Excerpt from AICPA Industry Audit Guide, <u>Audits of Employee Health and Welfare Benefit Funds</u>	
Appendix B -- Excerpt from FASB Statement No. 35, <u>Accounting</u> <u>and Reporting by Defined Benefit Pension Plans</u>	
Appendix C -- Excerpt from AICPA Industry Audit Guide, <u>Audits of Employee Health and Welfare Benefit Funds</u> <u>Illustrative Financial Statements</u>	

ISSUES PAPER

Accounting and Reporting by Health and Welfare Benefit Plans

Introduction

1. Health and welfare benefit plans include plans that provide:

- a. Medical, dental, visual or psychiatric care, life insurance, or accidental death and dismemberment benefits.
- b. Benefits during periods of disability.
- c. Benefits during time off for vacation or holidays.
- d. Benefits such as apprenticeships, scholarships, day care centers, or legal services.

2. The participants in health and welfare benefit plans may be those of a single employer or of several employers. Contributions by an employer may be voluntary or may be required under the terms of a collective bargaining agreement negotiated between one or more employers and one or more labor organizations. Contributions may be required from employers and participants (contributory plans) or from employers only (noncontributory plans). A noncontributory plan may provide for self-payment of contributions by participants to maintain their eligibility for benefits during periods of unemployment. Benefits are either paid from a fund's accumulated contributions and income (a self-insured plan) or are provided through insurance with an insurance

company (an insured plan). Health and welfare benefit plans generally are regulated by the Employee Retirement Income Security Act of 1974 (ERISA).

3. The 1972 industry audit guide, Audits of Employee Health and Welfare Benefit Funds, prepared by the AICPA Committee on Health, Welfare, and Pension Funds, provides guidance on generally accepted accounting principles for health and welfare benefit funds. FASB Statement No. 32, Specialized Accounting and Reporting Principles and Practices in AICPA Statements of Position and Guides on Accounting and Auditing Matters, designates the specialized accounting and reporting principles for purposes of applying APB Opinion No. 20, Accounting Changes.

4. In October 1975, the FASB issued a discussion memorandum, Accounting and Reporting for Employee Benefit Plans, which included issues relating to health and welfare benefit plans. In March 1980, the FASB issued Statement No. 35, Accounting and Reporting by Defined Benefit Pension Plans, which does not apply to health and welfare benefit plans, but which establishes certain standards that differ from those in the audit guide, primarily relating to the valuation of plan investments and the presentation of plan obligations.

Scope

5. This issues paper addresses the issues of the valuation of plan investments, the presentation of plan obligations, and additional financial statement disclosures of health and welfare benefit plans. The advisory conclusions of this issues paper

are those of the AICPA Employee Benefit Plans and ERISA Committee. Those conclusions propose certain amendments to the accounting and reporting principles and practices specified in the audit guide, Audits of Employee Health and Welfare Benefit Funds. The chapter of that audit guide that discusses generally accepted accounting principles is reproduced in Appendix A of this paper. The committee believes the other accounting and reporting principles and practices specified in the audit guide should continue to be considered preferable.

Plan Investments

6. The audit guide states that investments of a plan should be carried at cost. The guide notes, however,

The accounting for marketable securities not having a fixed maturity date is currently under study by the Accounting Principles Board. Any future APB pronouncements on this subject may be applicable to investments of employee health and welfare benefit funds.

7. FASB Statement No. 12, Accounting for Certain Marketable Securities, requires that a marketable equity securities portfolio to be carried at the lower of its aggregate cost or market value, and both the aggregate cost and the market value should be disclosed. FASB Statement No. 12, however, specifically exempted employee benefit plans because they were then the subject of a separate FASB project.

8. For defined benefit pension plans, FASB Statement No. 35 requires that plan investments (other than contracts with insurance companies) to be presented at fair value at the reporting date.

Contracts with insurance companies are to be presented in the same manner as that contained in the annual report filed with regulatory agencies under ERISA (the "contract value"). The information regarding plan investments is to be presented in enough detail to identify the types of investments and should indicate whether reported fair values have been measured by quoted prices in an active market or are fair values otherwise determined. ERISA specifies that plan investments should be reported at "current value," which is comparable to fair value required by FASB Statement No. 35.

9. Paragraphs 86-129 of FASB Statement No. 35 discuss the views concerning accounting for net assets available for benefits of defined benefit pension plans. Concerning plan investments other than insurance contracts, paragraph 95 states:

Most respondents to the Discussion Memorandum who favored a single method /of valuation/ advocated fair value. In their view, the fair value of plan investments is the most relevant information that can be provided for assessing (a) the security within the plan for participants' benefits and (b) the plan's investment performance. Further, for ERISA plans, a number of respondents noted that there would be no additional administrative burden caused by requiring its use because fair value is presently required in financial data filed with certain governmental agencies.

Advisory Conclusions

10. The provisions of FASB Statement No. 35 regarding plan investments of defined benefit pension plans are also relevant to health and welfare benefit plans. Therefore, the guidance in the audit guide regarding plan investments (page 8 of the guide)

should be amended to conform to paragraphs 11 to 13 of FASB Statement No. 35 as follows:

Investments

11. Plan investments, whether equity or debt securities, real estate, or other (excluding contracts with insurance companies) shall be presented at their fair value at the reporting date. The fair value of an investment is the amount that the plan could reasonably expect to receive for it in a current sale between a willing buyer and a willing seller, that is, other than in a forced or liquidation sale. Fair value shall be measured by the market price if there is an active market for the investment. If there is not an active market for an investment but there is such a market for similar investments, selling prices in that market may be helpful in estimating fair value. If a market price is not available, a forecast of expected cash flows may aid in estimating fair value, provided the expected cash flows are discounted at a rate commensurate with the risk involved.⁵

12. Contracts with insurance companies shall be presented in the same manner as that contained in the annual report filed by the plan with certain governmental agencies pursuant to ERISA.⁶ A plan not subject to ERISA shall similarly present its contracts with insurance companies, that is, as if the plan were subject to the reporting requirements of ERISA.

13. Information regarding a plan's investments shall be presented in enough detail to identify the types of investments and shall indicate whether reported fair values have been measured by quoted prices in an active market or are fair values otherwise determined. (Paragraphs 28(g) and 28(h) require certain additional disclosures related to investments.)

⁵ For an indication of factors to be considered in determining the discount rate, see paragraphs 13 and 14 of APB Opinion No. 21, *Interest on Receivables and Payables*. If significant, the fair value of an investment shall reflect the brokerage commissions and other costs normally incurred in a sale.

⁶ For 1979 plan years, the pertinent governmental reporting requirements relate to item 13 of either Form 5500 or Form 5500-C.

Plan Obligations

11. The audit guide identifies the following items as the major benefit obligations of a health and welfare benefit plan:

- a. Claims reported but not paid.
- b. Claims incurred but not reported.
- c. Accumulated eligibility credits.

The obligation for accumulated eligibility credits arises from the provisions of some plans to provide benefits for a period after the financial statement date for participants who have accumulated a specified number of eligibility credits or hours. Plans may also provide for other types of benefits such as benefits to retired participants or death benefits.

12. The audit guide specifies that the benefit obligations of a health and welfare benefit plan should be presented in the financial statements as liabilities of the plan. The audit guide specifically rejects the presentation of obligations as a segregation of the plan's fund balance.

13. Paragraphs 223 to 234 of FASB Statement No. 35 discuss the alternatives for presenting benefit information of defined benefit plans (see Appendix B). The alternatives considered include presentation as a liability, as an equity interest, as supplemental disclosure, or as a combination of those methods. Concerning defined benefit pension plans, the FASB did not conclude whether benefit obligations represent a liability of the plan, and the Board decided that the issue need not be resolved at this time. Paragraph 231 states:

If in the future it becomes necessary to readdress the accounting nature of benefit information, that effort should be facilitated by the existence of a Statement of Financial Accounting Concepts

that contains definitions of assets, liabilities, and equity interests. Because of its decision not to resolve the issue at this time, the Board concluded that this Statement should not restrict the location of the benefit information within the financial statements.

FASB Statement No. 35 permits the information on accumulated plan benefits and the related year-to-year changes to be presented on the face of one or more financial statements or in the related notes provided that each category of information is presented in its entirety in the same location.

14. Although the audit guide concluded that the benefit obligations of a health and welfare benefit plan are liabilities of the plan, the guide does discuss alternative presentations based on reasons similar to those expressed in FASB Statement No. 35.

Advisory Conclusion

15. The financial statements of an employee health and welfare benefit plan should provide information on the estimated amounts and the related year-to-year changes of major types of benefit obligations of the plan including, but not limited to, claims reported but not paid, claims incurred but not reported, and accumulated eligibility credits. Information on the plan's benefit obligations and related changes may be presented on the face of one or more financial statements or in the related notes provided that information on the amounts and on the related changes are each presented in their entirety in the same location.

16. The audit guide should be amended to permit presentation of benefit information in a manner consistent with FASB Statement No. 35. However, the presentation of benefit obligations as liabilities of the plan as specified in the audit guide, has been

accepted practice for many plans since the issuance of the guide. In those situations, plans would be permitted to continue to present the benefit obligations as liabilities in the financial statements, and changes to a different method of presentation are not required. Appendix D reproduces the illustrative financial statements of a health and welfare benefit plan provided in the audit guide presenting plan obligations as liabilities of the plan.

Additional Financial Statement Disclosures

Discussion

17. The additional disclosures specified in the 1972 audit guide are consistent with the disclosures specified both by ERISA and FASB Statement No. 35. The additional disclosures listed by ERISA and FASB Statement No. 35, however, are more specific and provide more detailed guidance on the types of disclosures that should be considered. The operations and objectives of an employee health and welfare benefit plan are generally similar to those of defined benefit pension plans, and disclosures similar to those listed by FASB Statement No. 35 may apply to health and welfare benefit plans.

Advisory Conclusions

18. Disclosure of a health and welfare benefit plan's accounting policies should include:¹

1. See APB Opinion No. 22, Disclosure of Accounting Policies.

- a. A description of the methods and significant assumptions used to determine the fair value of investments and the reported value of contracts with insurance companies.
- b. A description of significant actuarial assumptions used to determine the plan's obligations and of significant changes of assumptions between financial statement dates.

19. The plan's financial statements should disclose if applicable:

- a. A brief, general description of the plan agreement, including--but not limited to--vesting and benefit provisions.^{2/}
- b. A description of significant plan amendments adopted during the period.
- c. A brief, general description of (i) the priority order of participants' claims to the assets of the plan on termination.
- d. The funding policy and any changes in such policy during the plan year.^{3/} For a contributory plan, the disclosure should state the method of determining participants' contributions.
- e. The policy regarding the purchase of contracts with insurance companies that are excluded from plan assets.
- f. The federal income tax status of the plan, if a favorable letter of determination has not been obtained or maintained.

2. If a plan agreement or a description thereof providing this information is otherwise published or made available, the description required by 20(a) may be omitted provided that reference to such other source is made.

3. If significant costs of plan administration are being absorbed by the employer, that fact should be disclosed.

- g. Identification of investments that represent five percent or more of the net assets available for benefits.
- h. Significant real estate or other transactions in which the plan and any of the following parties are jointly involved: (i) the sponsor, (ii) the employer(s), or (iii) the employee organization(s).
- i. Unusual or infrequent events or transactions occurring after the financial statement date but before issuance of the financial statements that might significantly affect the usefulness of the financial statements in assessing of the plan's present and future ability to pay benefits when due. For example, a plan amendment adopted after the latest financial statement date that significantly increases future benefits attributable to employees' service rendered before that date should be disclosed. If reasonably determinable, the effects of such events or transactions should be disclosed. If such effects are not quantified, the reasons why they are not reasonably determinable should be disclosed.

APPENDIX A

Excerpt from AICPA Industry Audit Guide

Audits of Employee Health and
Welfare Benefit Funds

Generally Accepted Accounting Principles

Generally accepted accounting principles for commercial enterprises are for the most part applicable to employee health and welfare benefit funds. The following discussions relate to those principles which are of particular importance to such funds.

Methods of Accounting

Many employee health and welfare benefit funds typically report on the cash or modified cash basis of accounting. In many cases, these methods result in an incomplete presentation since significant assets and liabilities, and their effect on results of operations, are excluded from the financial statements. This exclusion precludes the user from determining the proper financial position and results of operations. The fund's ability to provide benefits can best be determined by use of accrual basis accounting. The inclusion in the financial statements of such items as contributions receivable, premium deposits, accrued experience rating adjustments, insurance premiums payable, liabilities for accumulated eligibility credits, and liabilities for unpaid benefits will result in the reporting of significant information regarding financial position and results of operations not available under the cash basis of accounting.

Accounting Changes

The committee believes that in requiring the accrual method of accounting it has clarified generally accepted accounting principles for employee health and welfare benefit funds. The committee further believes that a fund should recognize this change in accounting principle by applying retroactively the accrual method and restating the financial statements of prior periods which are presented. Reference should be made to paragraphs 27 and 28 of APB Opinion No. 20 for a description of how to report an accounting change by retroactively restating the financial statements of prior periods.

In some cases, accrual basis assets and liabilities may be difficult to determine. However, these items normally can be either determined or reasonably estimated from the records of the fund or obtained from an insurance company, insurance consultants, or actuaries. In the event that reasonable estimates of accrued assets and liabilities cannot be made, the independent auditor may be precluded from expressing an unqualified opinion on the financial statements.

Estimates for all types of enterprises are necessary in accounting. Any revisions of estimates which are required in subsequent periods should be accounted for in accordance with paragraphs 31 through 33 of APB Opinion No. 20, "Accounting Changes."

Investments

Investments of most employee health and welfare benefit funds are generally short term in nature to preclude liquidity problems when there are major fluctuations in employer contributions or benefit payments.

Investments should be carried at cost, and gains and losses should be recognized in the year of sale. This method is in conformity with generally accepted accounting principles and is the one currently followed by most employee health and welfare benefit funds.

The accounting for marketable securities not having a fixed maturity date is currently under study by the Accounting Principles Board. Any future APB pronouncements on this subject may be applicable to investments of employee health and welfare benefit funds.

Contributions Receivable

Contributions due from employers at the balance sheet date should be reflected in the financial statements of employee health and welfare benefit funds.

Most employer contributions are on a self-assessment basis and are generally received the month after they accrue; that is, the employer is paying the contribution due for the work performed by the participant in the preceding month. For funds in which a limited number of employers are involved, it is relatively easy to determine the amount of the contributions due at month end. Determination of contributions receivable at any month end may require estimates if a fund has a large number of contributing employers. This estimate may be based primarily on contributions received by the fund in the subsequent months and may also include an amount for contributions known to be delinquent, together with the related penalties that may be imposed. An adequate allowance should be provided for estimated uncollectible amounts.

Premium Deposits

Premium deposits should be reported as assets of the employee health and welfare benefit fund until applied against future premiums or refunded. In the event that the insurance company can apply the deposit as payment of possible future contingent premiums, a determination should be made as to whether or not the deposit is an asset as of the balance sheet date. Disclosure of the nature of this type of deposit should be made in the financial statements.

Accrued Experience Rating Adjustments

Certain group insurance contracts covering employee benefit funds include a provision for the refund, at the end of the policy year, of the excess of premiums paid over paid claims, reserves required by the insurance company, and the insurance company's retention (fee). Often such experience rating refund (or dividend) is not determined by the insurance company for several months after year end. In this event, and in cases where the

policy year does not coincide with the fund's fiscal year, it will be necessary to estimate the refund due, if any, at the balance sheet date.

Experience ratings, determined by the insurance company or by estimates, may also result in a premium deficit which should be recorded as a liability only in the event that the deficit will be applied against the amounts of future premium or experience rating refunds.

Property and Equipment

Buildings, equipment, furniture and fixtures, and leasehold improvements used in the operations of an employee health and welfare benefit fund represent costs chargeable to future periods. Therefore, they should be carried at cost and depreciated or amortized over their useful lives.

The financial statements should disclose the carrying basis of the properties, the nature of the assets by major class, the amount of accumulated depreciation and amortization, the method of depreciation and amortization used for each major class of assets, and the depreciation expense for the period.

Claims Reported But Not Paid and Claims Incurred But Not Reported

In an insured employee health and welfare benefit fund, claims reported but not paid and claims incurred but not reported will be paid by the insurance company, and therefore will not appear as a liability in the financial statements. The financial statements of a self-insured employee health and welfare benefit fund should include a liability for each of these items.

Claims reported but not paid may be determined from the records of the fund. The estimated liability for claims incurred but not reported is generally determined by the fund's insurance consultants or actuaries.

If a self-insured fund provides death benefits, the financial statements should also include an estimated liability for such benefits based upon determinations by the fund's insurance consultants or actuaries.

The estimated liability for claims reported but not paid, claims

incurred but not reported, and the liability for future death benefits should be shown separately in the financial statements.

Insurance Premiums Payable

Group insurance contracts for employee benefit funds are usually written for a one-year period, although the contract may provide for annual renewal. Among other things, the contract may specify the schedule of benefits, eligibility rules, premium rate per eligible member, and the date that premiums are due. The financial statements of the employee health and welfare benefit fund should include a liability for premiums due but not paid.

If the insurance policy contains a requirement for payment of additional contingent premiums in the event the loss ratio exceeds a specified percentage, provision for the estimated additional liability should be made in the financial statements.

Liability for Accumulated Eligibility Credits

The eligibility rules of some employee health and welfare benefit funds generally provide for the payment of insurance premiums or benefits for a period of time subsequent to the balance sheet date for those participants who have accumulated a sufficient number of eligibility credits or hours. Such rules permit eligible participants insurance coverage or benefits during periods of unemployment when employer contributions to the fund would not be sufficient to provide coverage or benefits. At the balance sheet date such accumulated eligibility credits represent a liability of the fund that has been incurred because of prior employer contributions and should be provided for in the financial statements.

The liability for accumulated eligibility credits determined under currently prevailing eligibility rules should be shown in the balance sheet as an obligation of the fund and not as a segregation of fund equity. Any change in the amount of the obligation from the last balance sheet date is a direct result of employer contributions earned during the year and should be either charged or credited to operations. The segregation of the obligation in the equity section of the balance sheet would preclude reflecting the required change in the statement of opera-

tions, and therefore would not permit a proper matching of revenue and expense.*

Fund Balance

The excess of the assets over liabilities of the employee health and welfare benefit fund should be classified in the financial statements as the fund balance. If the fund consists of several plans such as medical care, dental care, psychiatric care, and so forth, consideration should be given to segregating the respective fund balances. The changes in the fund balances should include only results of operations for the period and prior period adjustments.

If all or a portion of the fund balances have been restricted by the trustees for a purpose other than to provide benefits to the participants under the terms of the "declaration of trust," the restrictions should be disclosed in the financial statements.

Other Financial Statement Disclosures

1. *Nature of activities.* The financial statements of the employee health and welfare benefit fund may include a footnote de-

* Mr. Kingsbery dissents to the issuance of the Guide because he believes the accounting principles set forth in the Guide and illustrative financial statements are improper in two respects. It is his view that certain estimated future employee benefits (such as "future payment of benefits based on members' accumulated eligibility arising from hours accumulated," "retired participants' benefits," and "future death benefits") are not *liabilities* of the fund, but are allocations of fund balance. He believes the relationship between the fund (usually a trust) and the employee beneficiaries is not that of debtor and creditors; rather it is that of trustee and beneficiaries. Accordingly, it is his opinion that generally the fund has no *liability* at the statement date for future employee benefits, only a fiduciary responsibility under trust agreements to disburse available trust assets to beneficiaries at the time bona fide claims are made. Such estimated future benefits should, in his view, be segregated and designated as allocations of fund balance to the extent required, with any remaining fund balance designated as "unallocated." To the extent fund balance is inadequate at the statement date to cover estimated future benefit amounts, footnotes to financial statements should disclose the deficiency with that amount determined by reference to fair value of fund assets. Mr. Kingsbery also believes that the position set forth in the Guide that assets should be valued *at cost* is inconsistent with the principle of valuing estimated future employee benefits at their *present fair value* as required by the Guide. Since prior practice has not required quantification of future employee benefits at fair value, he believes this inconsistency may result in confusion to users of the fund's financial statements and believes the Guide should have required valuation of fund assets at *fair value* at the statement date.

scribing the fund's activities as well as any significant changes in the plan.

2. *Income tax status.* In the event that an exemption certificate has not been obtained, a footnote to the financial statements should disclose the tax status of the fund.
3. *Other matters.* The financial statements should include disclosure of any other matters necessary to fairly present the financial statements of a particular fund. Such disclosures might include a description of long-term lease commitments or other agreements and transactions which may involve conflicts of interest.

APPENDIX B

Excerpt from FASB Statement No. 35

Accounting and Reporting by
Defined Benefit Pension Plans

Alternatives Considered for Location of Benefit Information

223. Respondents suggested the following alternative locations for presenting benefit information: as a liability, as an equity interest, as supplemental disclosure, or as a combination of the foregoing.

224. Certain respondents contended that a liability should be recognized to the extent that participants have legally enforceable rights to their benefits. They argued that generally accepted accounting principles require other accounting entities to recognize as liabilities those claims that are legally enforceable against them and that there is no reason to apply a different standard to pension plans. Other respondents advocated a liability presentation because they believed that, regardless of the legal relationship, benefits are an equitable obligation of the plan. In their view, participants earn their benefits as they perform services. Therefore, the financial statements should present as a liability those benefits considered earned by participants.

225. Certain respondents advocated presentation of benefit information as participants' equity in the net assets of the plan. Some did not believe that the benefit information satisfied present criteria for recognizing an accounting liability. Because they considered it necessary to display the measure in a prominent manner so users could focus on the relationship between the plan's resources and the benefits accumulated under the plan, they favored presentation of benefit information as an equity interest. Others considered that presentation appropriate because they view the relationship between the plan and its participants primarily as a fiduciary one. In their view, the plan's resources are held in trust for participants who have a beneficial interest in those resources.

226. Some respondents favored presenting benefit information in the notes to the financial statements. Others preferred a separate financial statement. For some, presenting the benefit information as either a liability or an equity interest limited the information to less than that considered necessary in assessing the plan's ability to pay benefits. Others did not view benefit information as satisfying the criteria for either a liability or an equity interest. Certain respondents who expressed that view nevertheless felt that the benefit and net asset information should be combined and presented in a single financial statement. Those respondents believed that the relationship between the net assets available for benefits and the actuarial present value of accumulated plan benefits should be made explicit.

227. Certain respondents advocated some combination of the foregoing. Generally, those recommendations were based on what was perceived to be (a) an appropriate measure of a liability for an ongoing plan and (b) information necessary in assessing benefit security. Thus, certain respondents advocated presenting vested benefit information as a liability in the basic financial statements and nonvested benefit information in the accompanying notes.

228. For reasons similar to those discussed in paragraphs 131 and 132, other respondents favored presenting the benefit information as supplemental information, that is, in a financial report but outside of the financial statements.

Conclusions on Location of Benefit Information

229. Certain Board members are not convinced that the benefit information required by this Statement satisfies the criteria for presentation as a liability *of the plan*. Employees render services *to the employer* in exchange for their benefits. Therefore, if any liability exists, it is more likely that of the employer(s) rather than that of the plan.⁴⁴ Other Board members believe that

⁴⁴ Board members did not focus on the issue of what is the appropriate measure of the employer's obligation. That issue is presently covered by Opinion 8 and will be reconsidered in another Board project (footnote 23).

the benefit information does represent a liability of the plan. Certain Board members believe that provided the benefit information is located in the financial statements, the primary objective is satisfied; that is, it is not necessary to resolve whether the benefit information constitutes a liability of the plan or the employer(s).

230. Although there is a fiduciary relationship between a plan and its participants, an equity presentation would have the disadvantage of limiting the net equity of participants to the plan's net assets available for benefits.

231. Notwithstanding the divergence of individual Board members' views regarding the accounting nature of the benefit information, the Board concluded that that issue need not be resolved at this time. As part of its ongoing effort to develop a conceptual framework for financial accounting and reporting, another project on the Board's agenda addresses the definitions of elements of financial statements.⁴⁵ If in the future it becomes necessary to readdress the accounting nature of the benefit information, that effort should be facilitated by the existence of a Statement of Financial Accounting Concepts that contains definitions of assets, liabilities, and equity interests. Because of its decision not to resolve the issue at this time, the Board concluded that this Statement should not restrict the location of the benefit information within the financial statements. However, because the primary objective of plan financial statements focuses on providing information useful in assessing the plan's ability to pay, when due, the aggregate benefits attributable to service already rendered, the Board concluded that the benefit information (that is, categories (a), (b), and (c) identified in paragraph 22) should be presented together. The Board believes that the usefulness of the financial statements in assessing benefit security might be impaired if the user had to extract portions of the benefit information from various locations. Further, those who favored a combination approach (paragraph 227) generally did so because of their views about the liability nature of certain components of the benefit information.

⁴⁵ An FASB revised Exposure Draft, *Elements of Financial Statements of Business Enterprises*, was issued on December 28, 1979.

Although it decided not to resolve the issue of whether some part or all of the benefit information is a plan liability, the Board considered it inappropriate to have differing views on that issue serve as a basis for allowing portions of the benefit information to be presented in different locations.

232. The Board decided not to restrict the location of the benefit information within the financial statements, but it did conclude that the benefit information should not be presented as supplemental information outside of the financial statements. To require presentation outside of the financial statements, the Board believes it would be necessary to conclude that no part of the benefit information is an essential element of plan financial statements, that is, that the benefit information, either in part or in total, is neither a liability of nor an equity interest in the plan. The Board did *not* reach that conclusion; rather, it decided that it was not necessary at this time to resolve the nature of the benefit information.

233. The Board has on its agenda a project to develop guidelines for determining where information that meets the objectives of financial reporting should be disclosed—either within or outside of financial statements. In the absence of such guidelines, the Board compared the benefit information with the types of information that it has previously decided should be presented outside of financial statements (for example, the current cost and historical cost/constant dollar information required by FASB Statement No. 33, *Financial Reporting and Changing Prices*). It noted that other information permitted to be reported outside of financial statements was supplemental to the primary information about elements presented in an enterprise's financial statements (that is, the enterprise's assets, liabilities, owners' equity, revenues, expenses, etc.). Such supplemental information is not the only information about those elements that appears in the financial report of the enterprise. In the absence of that supplemental information, the information contained in the financial statements would still present the enterprise's financial condition and results of operations. An analogous situation does not exist with regard to the benefit information. The benefit information does not supplement other information about an element in a plan's financial statements. It is the only information required to be presented

about the benefits attributable to the service rendered by employees—which information is necessary to present the plan's financial status and to achieve the primary objective of plan financial statements. The Board believes that distinction supports requiring the benefit information to be presented within the financial statements.

234. Some who favored reporting the benefit information outside of the financial statements expressed views similar to those discussed in paragraphs 131 and 132. That is, they thought the benefit information was appropriately the province of actuaries rather than accountants. Some also wished to exclude the benefit information from the scope of an independent accountant's audit. As discussed in paragraph 134, the Board does not accept the notion that if the preparation of financial information is not within the professional qualifications of accountants, it is outside the scope of financial statements. Further, inclusion of the benefit information within plan financial statements does not necessarily require it to be audited by an independent accountant. A plan administrator's assessment of various factors, including the needs of particular users of the plan's financial statements, may determine the extent of auditor involvement. For example, as allowed by ERISA regulations, some plan administrators are presently choosing to exclude certain plan investments from the scope of an audit (paragraph 137). The Board does not believe it is appropriate or necessary to exclude the benefit information from plan financial statements solely for the purpose of avoiding auditor involvement.

APPENDIX C

Excerpt from AICPA Industry Audit Guide

Audits of Employee Health and
Welfare Benefit Funds

Illustrative Financial Statements for:

An Insured Fund

A Self-Insured Fund

A Vacation Fund

Note: The following illustrations present plan obligations as liabilities in the plan's financial statements as specified in the 1972 audit guide. The advisory conclusions in this issues paper state that plans should be permitted to present plan obligations in a manner consistent with FASB Statement No. 35. The issues paper also includes advisory conclusions on additional financial statement disclosures. It is expected that if those conclusions are expressed in a Statement of Position or are later incorporated in the audit guide, Audits of Employee Benefit Plans, illustrative financial statements will be included showing alternative methods of presenting plan obligations and showing examples of additional disclosures.

Appendix C

An Insured Fund

PAM Employee Health and Welfare

April 30,

Benefit Fund Balance Sheet

19X2 and 19X1

	April 30	
	19X2	19X1
Assets		
Cash	\$ 322,400	\$ 69,000
Receivables:		
Estimated employers' contributions (less allowance for doubtful ac- counts of \$8,000 in 19X2 and 19X1)	700,000	645,000
Accrued interest and dividends	3,000	4,500
Total	<u>703,000</u>	<u>649,500</u>
Investments—at Cost:		
United States Government bonds and notes (approximate quoted market value \$921,000 in 19X2 and \$570,- 000 in 19X1)	949,000	567,000
Corporate bonds and notes (appropri- mate quoted market value \$485,000 in 19X2 and \$652,000 in 19X1)	487,000	653,000
Common stocks (approximate quoted market value \$109,000 in 19X2 and \$112,000 in 19X1)	83,000	102,000
Total	<u>1,519,000</u>	<u>1,322,000</u>
Equipment—at Cost:		
(Less accumulated depreciation of \$121,000 in 19X2 and \$110,000 in 19X1)	328,300	324,600
Other Assets:		
Prepaid expenses	3,000	4,000
Advance deposit with insurance carrier	22,000	22,000
Miscellaneous	5,000	20,000
Total	<u>30,000</u>	<u>46,000</u>
Total Assets	<u>\$2,902,700</u>	<u>\$2,411,100</u>

See Notes to Financial Statements.

	April 30	
	19X2	19X1
Liabilities and Fund Balance		
Liabilities:		
Accounts payable and accrued ex- penses	\$ 38,000	\$ 31,000
Group insurance premium payable	863,000	800,000
Estimated liability for future group insurance premiums based on par- ticipants' accumulated eligibility, arising from hours accumulated	430,000	275,000
Estimated liability for retired par- ticipants' benefits	385,000	300,000
Estimated liability for future death benefits	615,000	500,000
Total	<u>2,331,000</u>	<u>1,906,000</u>
Fund Balance	571,700	505,100
Total Liabilities and Fund Balance	<u>\$2,902,700</u>	<u>\$2,411,100</u>

PAM Employee Health and Welfare Benefit Fund
Statement of Operations and Fund Balance
For the Years Ended April 30, 19X2 and 19X1

	<i>Year Ended April 30</i>	
	<u>19X2</u>	<u>19X1</u>
Revenues:		
Contributions:		
Employers	\$9,700,000	\$9,850,000
Employees	600,000	400,000
Interest and dividends	110,000	81,000
Gain on the sale of investments — net	42,600	1,000
Total Revenues	<u>10,452,600</u>	<u>10,332,000</u>
Expenses:		
Group insurance premiums	9,932,800	9,974,000
Retired participants' benefits	162,200	53,000
Death benefits	190,000	136,000
Administrative expenses	101,000	113,900
Total Expenses	<u>10,386,000</u>	<u>10,276,900</u>
Excess of Revenues Over Expenses	66,600	55,100
Fund Balance:		
Beginning of year	<u>505,100</u>	<u>450,000</u>
End of year	<u>\$571,700</u>	<u>\$ 505,100</u>

See Notes to Financial Statements.

PAM Employee Health and Welfare Benefit Fund
Statement of Changes in Financial Position
For the Years Ended April 30, 19X2 and 19X1

	<i>Year Ended April 30</i>	
	<u>19X2</u>	<u>19X1</u>
Increases in Cash Resulted From:		
Excess of revenues over expenses	\$ 66,600	\$ 55,100
Add expenses not requiring outlay of operating funds:		
Provision for future group insurance premiums, retired participants' benefits and death benefits	587,600	226,000
Depreciation	11,000	10,500
Total from operations	<u>665,200</u>	<u>291,600</u>
Cost of investments sold or redeemed	310,000	285,000
Increase in accounts payable, accrued expenses and group insurance premium payable	70,000	50,000
Total	<u>1,045,200</u>	<u>626,600</u>
Decreases in Cash Resulted From:		
Payment of group insurance premiums based on participants' accumulated eligibility, death benefits, and benefits to retired participants	232,600	273,000
Purchases of investments	507,000	438,000
Equipment additions	14,700	17,400
Increase in receivables and other assets—net	37,500	10,000
Total	<u>791,800</u>	<u>738,400</u>
Increase (Decrease) in cash	<u>\$ 253,400</u>	<u>\$ (111,800)</u>

See Notes to Financial Statements.

PAM Employee Health and Welfare Benefit Fund

Notes to Financial Statements

Year Ended April 30, 19X2

General. The PAM Employee Health and Welfare Benefit Fund was formed in 19XX under an agreement between the Contractors' Association and the Labor Union. The agreement provides, among other things, for employers of members of the Union to contribute X cents for each hour worked.

A plan of insurance provides for accident, hospital, medical, surgical, and disability benefits for eligible members as specified in the Plan.

Death benefits are provided for eligible members from contributions in excess of hours required for current coverage. The amount segregated for death benefits has been determined by application of the unit risk rates computed in accordance with actuarial principles.

Group Insurance. The group insurance contract with the insurance carrier provides that to the extent premiums paid exceed the sum of the claims paid and provided for and the insurance carrier's retention, a refund of premiums is to be made to the Fund. If the sum of the claims paid and provided for and the insurance carrier's retention exceed the premiums paid, such excess is carried forward to the succeeding policy years in the determination of the premium refunds, if any, to be paid to the Fund. As of April 30, 19X2, no significant adjustment of premium liability or refund is anticipated.

Group insurance premiums payable reflect the estimated cost of group insurance premiums to be paid subsequent to April 30, 19X2, based upon hours worked and contributions recorded prior to that date.

Depreciation. Depreciation is computed on the straight-line method over the estimated useful life of the equipment. Depreciation charged to administrative expenses was \$11,000 in 19X2 and \$10,500 in 19X1.

Estimated Liability for Future Benefits. The Fund provides benefits to certain active and retired members, if such members have accumulated in the current or prior years credit amounts (expressed in hours) in excess of the hours required for current insurance coverage.

Under the Plan, accumulated credits equal to approximately one year's insurance coverage may be carried forward, and any credits in excess of approximately one year's insurance coverage are converted into specified amounts of paid-up death benefits.

Lease Commitments. The Fund operates in premises leased from the local labor union requiring annual rental payments of \$10,000 through 19XX.

A Self-Insured Fund

Benefit Fund Balance Sheet

19X2 and 19X1

11

SCS Employee Health and Welfare Benefit Fund
Statement of Operations and Fund Balance
For the Years Ended April 30, 19X2 and 19X1

	<i>Year Ended April 30</i>	
	<u>19X2</u>	<u>19X1</u>
Revenues:		
Contributions:		
Employers	\$ 9,700,000	\$ 9,850,000
Employees	600,000	400,000
Interest and dividends	110,000	81,000
Gain on the sale of investments— net	42,600	1,000
Total Revenues	<u>10,452,600</u>	<u>10,332,000</u>
Expenses:		
Claims	9,932,800	9,974,000
Retired participants' benefits	162,200	53,000
Death benefits	190,000	136,000
Administrative expenses	101,000	113,900
Total Expenses	<u>10,386,000</u>	<u>10,276,900</u>
Excess of Revenues Over Expenses	66,600	55,100
Fund Balance:		
Beginning of year	505,100	450,000
End of year	<u>\$ 571,700</u>	<u>\$ 505,100</u>

See Notes to Financial Statements.

SCS Employee Health and Welfare Benefit Fund
Statement of Changes in Financial Position
For the Years Ended April 30, 19X2 and 19X1

	<i>Year Ended April 30</i>	
	<u>19X2</u>	<u>19X1</u>
Increases in Cash Resulted From:		
Excess of revenues over expenses	\$ 66,600	\$ 55,100
Add expenses not requiring outlay of operating funds:		
Provision for claims incurred but not reported, future benefits, retired participants' benefits, and death benefits	687,600	226,000
Depreciation	11,000	10,500
Total from operations	<u>765,200</u>	<u>291,600</u>
Cost of investments sold or redeemed	310,000	285,000
Total	<u>1,075,200</u>	<u>576,600</u>
 Decreases in Cash Resulted From:		
Decrease (Increase), in accounts payable, accrued expenses, and claims payable	63,000	(50,000)
Payment of benefits based on participants' accumulated eligibility, death benefits, and benefits to retired participants	199,600	273,000
Purchases of investments	507,000	438,000
Equipment additions	14,700	17,400
Increase in receivables and other assets—net	37,500	10,000
Total	<u>821,800</u>	<u>688,400</u>
 Increase (Decrease) in Cash	<u>\$ 253,400</u>	<u>\$ (111,800)</u>

See Notes to Financial Statements.

SCS Employee Health and Welfare Benefit Fund
Notes to Financial Statements
Year Ended April 30, 19X2

General. The SCS Employee Health and Welfare Benefit Fund was formed in 19XX under an agreement between the Contractors' Association and the Labor Union. The agreement provides, among other things, for employers of members of the Union to contribute X cents for each hour worked.

The Plan provides for accident, hospital, medical, surgical, and disability benefits for eligible members as specified in the Plan.

Death benefits are provided for eligible participants from contributions in excess of hours required for current coverage. The amount segregated for death benefits has been determined by application of the unit risk rates computed in accordance with actuarial principles.

Depreciation. Depreciation is computed on the straight-line method over the estimated useful life of the equipment. Depreciation charged to administrative expenses was \$11,000 in 19X2 and \$10,500 in 19X1.

Estimated Liability for Future Benefits. The Fund is required to provide benefits to certain active and retired members, if such members have accumulated in the current or prior years credit amounts (expressed in hours) in excess of the hours required for current coverage.

Under the Plan, accumulated credits equal to approximately one year's coverage may be carried forward, and any credits in excess of approximately one year's coverage are converted into specified amounts of paid-up death benefits.

Lease Commitments. The Fund operates in premises leased from the local labor union requiring annual rental payments of \$10,000 through 19XX.

A Vacation Fund

TCMT Vacation Trust Fund
Balance Sheet
April 30, 19X2 and 19X1

	<i>April 30</i>	
	<u>19X2</u>	<u>19X1</u>
<u>Assets</u>		
Cash	\$ 17,000	\$ 5,500
Certificates of Deposit	1,500,000	943,000
Contributions Receivable	152,000	146,000
Interest Receivable	9,000	8,200
Prepaid Expenses	9,000	7,300
Total Assets	<u>\$1,687,000</u>	<u>\$1,110,000</u>
 <u>Liabilities and Fund Balance</u>		
Liabilities:		
Accounts payable	\$ 17,000	\$ 13,500
Vacation benefits payable:		
19X0 and prior Plan Years	25,000	47,000
19X1 Plan Year	31,000	1,013,000
19X2 Plan Year	1,600,000	
Total vacation benefits payable	<u>1,656,000</u>	<u>1,060,000</u>
Total Liabilities	<u>1,673,000</u>	<u>1,073,500</u>
Fund Balance	<u>14,000</u>	<u>36,500</u>
Total Liabilities and Fund Balance	<u>\$1,687,000</u>	<u>\$1,110,000</u>

See Notes to Financial Statements.

TCMT Vacation Trust Fund
Statement of Operations and Fund Balance
For the Years Ended April 30, 19X2 and 19X1

	<i>Year Ended April 30</i>	
	<u>19X2</u>	<u>19X1</u>
Revenues:		
Interest	\$ 70,000	\$ 48,500
Other	500	500
Total Revenues	<u>70,500</u>	<u>49,000</u>
Expenses:		
Administrative fees	76,000	70,000
Professional fees	9,000	8,500
Insurance	2,000	2,000
Trustees' expenses	1,000	1,000
Corporate trustee fees	5,000	5,000
Total Expenses	<u>93,000</u>	<u>86,500</u>
 Excess of Expenses Over Revenues	 22,500	 37,500
 Fund Balance:		
Beginning of year	36,500	74,000
End of year	<u>\$ 14,000</u>	<u>\$ 36,500</u>

See Notes to Financial Statements.

TCMT Vacation Trust Fund
Statement of Changes in Financial Position
For the Years Ended April 30, 19X2 and 19X1

	<i>Year Ended April 30</i>	
	<u>19X2</u>	<u>19X1</u>
Increases in Cash and Certificates of Deposit Resulted From:		
Increase in accounts payable	\$ 3,500	\$ 1,000
Increase in vacation benefits payable represented by employers' contributions:		
Plan Year 19X0 and prior years		20,000
Plan Year 19X1	10,000	1,018,000
Plan Year 19X2	1,653,000	
Total	<u>1,666,500</u>	<u>1,039,000</u>
Decreases in Cash and Certificates of Deposit Resulted From:		
Excess of expenses over revenues	22,500	37,500
Increase in receivables and prepaid expenses	8,500	1,000
Decrease in vacation benefits payable represented by vacation benefits paid to participants:		
Plan Year 19X0 and prior years	22,000	850,000
Plan Year 19X1	992,000	5,000
Plan Year 19X2	53,000	
Total	<u>1,098,000</u>	<u>893,500</u>
Increase in Cash and Certificates of Deposit	<u>\$ 568,500</u>	<u>\$ 145,500</u>

See Notes to Financial Statements.

TCMT Vacation Trust Fund
Note to Financial Statements
Year Ended April 30, 19X2

The TCMT Vacation Trust Plan was formed in 19XX under an agreement between the Contractors' Association and the Labor Union. The agreement provides, among other things, for employers of the labor union members to deduct from each member's wages X cents for each hour worked.

Contributions received are added to vacation accounts of employees. The amounts accumulated in each vacation account as of April 30 of each year are paid on or after June 1 to the members unless the member elects to continue to hold such amount in his vacation account.